Sasken Technologies Limited

January 07, 2019

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based	50.0	50.0	[ICRA]A1+; Reaffirmed
Non-fund based	40.0	40.0	[ICRA]A1+; Reaffirmed
Total	**90.0**	**90.0**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of rating factors in the company's established presence as a Information Technology (IT) service provider in the product engineering and digital transformation space, supported by its longstanding relationships with a reputed customer base spread across various geographies. While the company traditionally derived majority of its revenues from the semiconductor and telecom sectors, it is currently witnessing traction under automotive electronics, industrial automation and consumer segments, which supported YoY growth in revenues of 7.7% and 2.0% in FY2018 and H1FY2019 respectively. ICRA notes that Sasken's operating margins expanded by 260 bps YoY to 13.8% in FY2018 from 11.2% in FY2017 supported by execution of margin-accretive complex orders, higher contribution from fixed price contracts and cost optimization. The ratings also continue to take comfort from healthy debt metrics of the company supported by nil debt and cash and liquid investments of Rs. 528.5 crore as on Sep 30, 2018. Sasken's business prospects are further supported by healthy growth prospects in the engineering, research and development (ER&D) industry. Synergies from its legacy in semiconductor industry and strong expertise in communication and multimedia space is expected to support Sasken's business prospects. That said, the ratings continue to be constrained by Sasken's moderate scale of operations in a highly competitive industry marked by presence of relatively larger players constraining its pricing flexibility to a certain extent. While Sasken witnessed a 7.7% YoY growth in its top line in FY2018, it's five-year CAGR was a muted 2.4%. The company continues to be exposed to industry-specific factors such as wage inflation, attrition, exchange rate fluctuation, etc.

Outlook: Stable

ICRA believes that the company will continue to benefit from its established position in the market in the semiconductor and telecom sectors and its longstanding relationship with its key customers. The outlook may be revised to Positive if the company witnesses a substantial increase in its revenue and expansion in margins leading to strong cash accruals. The outlook may be revised to Negative if cash accrual is lower than expected, or if any major debt-funded acquisition, weakens liquidity.

Key rating drivers

Credit strengths

Established presence in semiconductor and communication sector: Sasken has more than 30 years of experience in semiconductor and communication verticals. The company offers integrated circuit (IC) design, hardware design, board support packages, modem software solutions, connectivity services, multimedia solutions, smartphone software, testing, etc. Currently, the company is expanding into other verticals like automotive electronics, industrial automation and consumer segment, for diversifying its revenue stream.

Longstanding relationship with a reputed customer base: Sasken's customers profile includes various global telecom and semiconductor players. While the company continues to add new customers, its top ten customers largely remain the same. Sasken has consciously reduced its customer concentration with top five customer contributing ~45% to revenues in FY2018 from ~60-65% during FY2009. However, top five customers contributed high at 52-55% in H1FY2019 on account of high billings from some of its key customers. With traction across new verticals and addition of new logos, customer concentration is expected to reduce further going forward.

Diversified revenues across geographies: Sasken enjoys a fairly diversified mix with North America, India and Europe contributing ~38.8%, 29.0% and 25.1% respectively to revenues in FY2018. Geographically, diversified revenues aids Sasken in mitigating any region-specific risk factors. Going forward, the company's revenues are likely to remain export-driven given the nature of its services.

Financial profile characterized by strong capital structure and coverage indicators: The company's debt indicators continue to remain healthy supported by nil debt and net worth of Rs. 653.6 crore as on Sep 30, 2018. Cash balance and liquid investments of Rs. 528.5 crore as on Sep 30, 2018 further support the company's credit profile. While the company continues to have steady dividend pay-outs, absence of debt-funded capex plans and healthy margins are expected to support the capital structure and coverage indicators going forward.

ER&D industry continues to ride its growth trajectory: As per NASSCOM, the global ER&D industry is expected to achieve US$ 42 billion by FY2022 from the current level of US$ 28 billion. Sizable expected growth of the ER&D industry is expected to provide substantial headroom for Sasken's growth.

Credit challenges

Moderate scale of operation in a highly competitive industry: The IT industry is characterized by large players enjoying scale benefits and higher bargaining power. With a top line of Rs. 503 crores in FY2018, the company has a moderate scale of operations restricting its ability to enjoy scale benefits and command pricing flexibility to some extent. With ~70% of its revenues derived through exports, Sasken is exposed to foreign exchange risk. However, the company enters into forward contracts to hedge its exposure in US$ and euro. Nevertheless, industry-specific risks like wage inflation and attrition continue to affect Sasken.

Stagnation in revenue growth with five-year CAGR at ~2.4%: While Sasken witnessed a 7.7% YoY growth in its top line in FY2018, it's five-year CAGR stood at a muted 2.4%. Despite stagnation in its top line, Sasken continues to improve its margins, supported by execution of margin-accretive complex orders, higher contribution from fixed price contracts and cost optimization. Going forward, with traction across the new verticals, Sasken is expected to support expansion of its top line.

Liquidity Position:

The company's liquidity continues to remain healthy supported by healthy cash balance and liquid investments of Rs. 528.5 crore as on Sep 30, 2018. Sasken has access to working capital limits of Rs. 90 crores. However, supported by healthy accruals, the company has not utilized the same over the last 12 months.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for entities in information technology industry
Parent/Group Support	-
Consolidation / Standalone	The rating is based on consolidated financial statements of the company.

About the company

Incorporated in 1989, Sasken Technologies Limited is a small-sized IT / ITeS company primarily involved in providing product engineering and digital-transformation services. Sasken's service offering spans across development, life-cycle extension and sustenance of semi-conductors, platforms, network elements (voice and data) including terrestrial and satellite, customer-owned equipment like handsets, set-top boxes and lifestyle / consumer products. The company caters to a wide range of domains such as semi-conductors, automotive, enterprise-grade devices, smart devices and wearables, industrials, retail, public safety, satcom, and telecom. With about 1,800 employees spread across Bangalore, Pune, Chennai and Hyderabad (India), Kaustinen and Tampere (Finland), Beijing (China), Tokyo (Japan), UK, USA and Mexico, Sasken caters to a large base of 98 customers as on Sep 30, 2018. Sasken is a publicly listed company with its promoter, Mr. Rajic Mody, and family holding ~42.4% stake as on Sep 30, 2018.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	467.3	503.0
PAT (Rs. crore)	84.7	82.4
OPBDIT/OI (%)	11.2%	13.8%
RoCE (%)	18.2%	16.9%
Total Debt/TNW (times)^	-	-
Total Debt/OPBDIT (times)^	-	-
Interest Coverage (times)^	-	-

Source: the company;^ Nil debt

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating January 2019	Date & Rating in FY2018 January 2018	Date & Rating in FY2017 December 2016	Date & Rating in FY2016 -
1	PCFC	Short Term	50.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-
2	Letter of Credit	Short Term	40.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	PCFC	09.04.2018	NA	-	50.00	[ICRA]A1+
NA	Letter of Credit	09.04.2018	NA	-	40.00	[ICRA]A1+

Source: Sasken

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Sasken Communication Technologies Mexico	100%	Full Consolidation
Sasken Communication Technology (Shanghai) Co. Ltd.	100%	Full Consolidation
Sasken Finland Oy	100%	Full Consolidation
Sasken Inc., USA	100%	Full Consolidation
TACO Sasken Automotive Electronics Limited	50%	Equity Method
ConnectM Technology Solutions Pvt. Ltd.	50%	Equity Method

Source: company

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